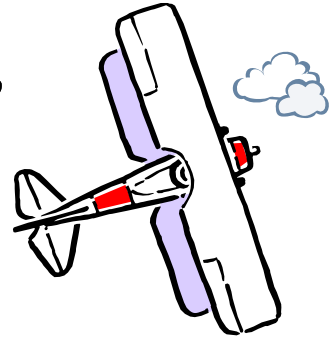


SCHOOL DISTRICT FLYER



Issue 40

A Newsletter of the Office of the Auditor General

June 2008

ARE YOU RECORDING CLASSROOM SITE FUNDS PROPERLY?

In November 2000, voters passed Proposition 301, which increased the state-wide sales tax to provide additional resources for education programs. A portion of the revenue from Proposition 301 is distributed to each district for deposit into the district's Classroom Site Funds. These monies may be spent only in specific proportions for three main



purposes: teacher base pay increases, teacher performance pay, and certain menu options such as reducing class size, providing dropout prevention programs, and making additional increases in teacher pay. Our Office, as part of our performance audits of districts, and independent auditors, as part of completing a district's USFR Compliance Questionnaire, assess whether Classroom Site Fund expenditures were appropriate, accounted for properly, and remained within statutory limits.

Classroom Site Fund monies must be used in accordance with Arizona Revised Statutes (A.R.S.) §15-977. To properly account for these monies, districts must maintain detailed records of Classroom Site Fund revenues and expenditures and track beginning and ending fund balances in three separate special revenue funds: 011 Classroom Site Fund—Base Salary, 012 Classroom Site Fund—Performance Pay, and 013 Classroom Site Fund—Other. Our Office's recent performance audits have noted districts using year-end journal entries to record expenditures to the separate funds rather than maintaining the separate funds during the year. This practice is not in accordance with USFR requirements and has resulted in districts' being unable to adequately support that Classroom Site Fund monies were spent appropriately. To meet USFR and statutory requirements, districts should record and account for all revenues and expenditures in the separate Classroom Site Funds throughout the year and not just at year-end.

For more information regarding Classroom Site Funds, see USFR Memorandum No. 194 on our Web site. If you have any questions, please call us at (602) 553-0333.

TAX CREDIT DETERMINATION CHART



We frequently receive questions about whether an extracurricular activity is eligible to be paid for with extracurricular activities fees tax credit monies. Now there is a handy resource to help you answer tax credit questions yourself. We have created a tax credit determination chart that includes six simple "yes" or "no" questions that will help guide you through the statutory requirements. If all six questions are answered "yes," then tax credit monies may be used to pay for the activity. Alternately, if any of the questions are answered "no," then tax credit monies may not be used to pay for the activity. The determination chart can be downloaded from our Web site at www.azauditor.gov/Reports/School_Districts/School_District_FAQs.htm#ExtraActiv1. Also, see USFR Memorandum No. 214 for more extracurricular activities fees tax credit information.

TRAVEL REIMBURSEMENTS FOR GOVERNING BOARD MEMBERS

Issue 39 of the School District Flyer discussed recent changes to the Arizona Department of Administration's travel policy. These changes also



affect how to reimburse governing board members traveling on district business. In order to comply with the travel policy and IRS regulations, a school district governing board member should be considered a district employee for purposes of taxable meal reimbursements only.

If board members claim meal reimbursements without an overnight stay or substantial rest period, the reimbursement should be taxed and the district should provide a W-2 to the board member at the end of the calendar year.

Since the board member would be considered a district employee for tax purposes, an employment eligibility verification (Form I-9), and employee federal and state withholding allowance certificates (W-4 and A-4) should be completed. This does not make the board member an employee of the district for any other purpose.

For more information on the reimbursement of travel expenditures, see USFR Memorandum No. 231 on our Web site.

QUESTIONS AND ANSWERS



Question: What are budget-controlled and cash-controlled funds?

Answer: Budget-controlled funds are funds with an approved budget, and expenditures from those funds are restricted to the

amount of each fund's budget capacity regardless of the fund's actual cash balance. Expenditures of cash-controlled funds are limited to the actual cash balance available in each fund.

The following funds are budget-controlled: Maintenance and Operation (Fund 001), Unrestricted Capital Outlay (Fund 610), Adjacent Ways (Fund 620), Soft Capital Allocation (Fund 625), and Classroom Site Funds (Funds 011, 012, and 013).

Federal Projects (Funds 100-399) and State Projects (Funds 400-499) are budget-controlled. However, expenditures can be made from federal and state projects funds without sufficient cash in the specific fund only if the county treasurer maintains two separate accounts—one for levy funds and Classroom Site Funds, and the second for federal and state projects and all other funds. Also, in order to make expenditures from federal and state projects funds there must be sufficient cash in the second account as described in A.R.S. §15-996.

All other funds not listed above are cash-controlled funds.

Districts should ensure that sufficient budget capacity is available in budget-controlled funds and sufficient cash is available in cash-controlled funds before authorizing expenditures from those funds.



Question: What function code should be used to record fuel purchases?

Answer: If a district purchases fuel for district vehicles (other than student transportation vehicles), it should be coded to function code **2600—Operation and Maintenance of Plant** (2650—*Vehicle Operation and Maintenance [Other than Student Transportation Vehicles]*). For purchases of fuel for student transportation vehicles (buses and vans), it should be coded to function code **2700—Student Transportation** (2730—*Vehicle Servicing and Maintenance*).

REMINDERS

ADVICE OF ENCUMBRANCE

Districts that have liabilities payable in levy funds at June 30 must prepare an Advice of Encumbrance and submit it to the county school superintendent by July 18. USFR Memorandum No. 188 provides the Advice of Encumbrance districts should use for fiscal year 2008. Districts participating in the Accounting Responsibility Program are exempt.

PAYROLL DIRECT DEPOSIT CLEARING ACCOUNT

Districts may establish a payroll direct deposit clearing account to make payroll direct deposit payments to financial institutions designated by school district employees. The account must be a clearing account maintaining a zero balance and must not accumulate funds except for interest earned on the account. At the end of the fiscal year, the interest earned on the account must be transferred to the district's M&O Fund.